

# The Treasury

## 'Shovel-ready' Infrastructure Projects - possible early announcements Information Release

November 2020

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## Treasury Report: 'Shovel-ready' Infrastructure Projects - possible early announcements

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<b>Date:</b>	1 May 2020	<b>Report No:</b>	T2020/1275
		<b>File Number:</b>	LA-7-53-9 (COVID Economic Response Directorate)

### Action sought

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	Action sought	Deadline
Hon Grant Robertson <b>Minister of Finance</b>	<b>Discuss</b> the contents of this report with officials at Budget Matters on Monday 4 May	4 May 2020

### Contact for telephone discussion (if required)

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Name	Position	Telephone	1st Contact
[34]	[39]	[35]	

### Minister's Office actions (if required)

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**Return** the signed report to Treasury.

**Refer** a copy of this report and attached material to the Minister for Economic Development and Minister for Infrastructure.

Note any feedback on the quality of the report

**Enclosure:** Yes (attached)

# Treasury Report: 'Shovel-ready' Infrastructure Projects - possible early announcements

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## Executive Summary

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On 1 April 2020, Ministers announced the establishment of the Infrastructure Reference Group (IRG) headed by Crown Infrastructure Partners (CIP) Chairman Mark Binns. The IRG is tasked with delivering a list of recommended infrastructure projects from the private and public sector that are 'shovel-ready' (or likely to be within six to 12 months).

In advance of the final IRG list being delivered later in May, Ministers requested that the IRG deliver a 'top 10' list of projects, for possible early announcement, to be considered in the lead up to the 11 May Cabinet decisions on allocating funding from the COVID-19 Response and Recovery Fund (CRRF).

In response to the 'top 10' list provided by the IRG at 3pm on Thursday 30 April, this report provides you with advice on potential projects for consideration as part of the 11 May Cabinet decisions on the CRRF. It should be read alongside the *Strategy and options for allocating the COVID-19 Response and Recovery Fund* and *Assessment of bids for COVID-19 Response and Recovery Fund* reports, which provide the broader context for this advice and the full assessment of CRRF bids.

We have had limited time to assess the list which comprises 24 projects seeking \$1.5 billion of total government funding. Table One summarises the list of projects including the Treasury's view that 6 projects could be considered for early announcement. Annex 3 provides you with the more detailed list of projects as submitted by the IRG.

There are a number of sectoral and investment considerations that you should take into account in considering projects for early announcement. In particular, we need to clarify what assumptions have been made about fast-tracking consenting. We also consider that all three waters projects should be deferred pending reform work, and there may be better options for investment in transport projects. A Capital Investment Panel convened by the Treasury has also provided suggestions on how to ensure that any investments are delivered effectively, including the requirement to produce implementation business cases.

In addition to the IRG work, Ministers have other options to consider accelerating or investing in new infrastructure projects, including establishing a Wave 3 CRRF funding process where agencies could submit bids for infrastructure projects for consideration by Ministers. More broadly, we consider that significant new infrastructure investment would best be considered later in Wave 2 and beyond (for example as part of Wave 3 or in Budget 2021) as it will allow more time to consider emerging information on long-term recovery scenarios and further options for enabling supply-side capacity.

The Minister for Infrastructure has submitted a placeholder bid through the CRRF process seeking \$5 billion in funding for IRG projects. We do not recommend supporting this bid at this stage. If Ministers would like to allocate further funding for infrastructure in this CRRF round, we would recommend establishing a tagged contingency fund that can be drawn down once further work is done to identify appropriate projects.

We will be available to discuss this report with you at Budget Matters on Monday 4 May, alongside the other two related papers. If you wish to consider some of the projects discussed above for early announcement or establish a tagged contingency for infrastructure projects, we recommend that this be incorporated into the CRRF Cabinet paper being prepared for 11 May.

## Recommended Action

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We recommend that you:

- a **note** Ministers requested that the IRG deliver a 'top 10' list of 'shovel-ready' projects to be considered in the lead up to the 11 May Cabinet decisions on the COVID-19 Response and Recovery Fund (CRRF), for possible announcement shortly afterwards
- b **note** that we received the IRG 'top 10' list at 3pm on Thursday 30 April that recommended a list of 24 projects across a number of sectors including health, three waters, transport, education, housing and urban development and community projects
- c **note** officials have quickly assessed the 24 projects seeking \$1.5 billion of total government funding, and support 6 projects that could be considered for early announcement at Cabinet decision on 11 May
- d **note** that there are a number of sectoral and investment considerations that you should take into account in considering projects for early announcement
- e **note** that Ministers have other options to consider accelerating or investing in new infrastructure projects, including establishing a Wave 3 CRRF funding process where agencies could submit bids for infrastructure projects and Ministers would have the opportunity to select projects based on better information
- f **note** the Minister for Infrastructure has submitted a placeholder bid through the CRRF process seeking \$5 billion in funding for IRG projects
- g **note** that officials do not recommend supporting this bid at this stage and instead recommend establishing a tagged contingency, if Ministers want to announcement on infrastructure funding from the CRRF
- h **refer** a copy of this report and attached material to the Minister for Economic Development and the Minister of Infrastructure

*Referred/not referred*

- i **discuss** the contents of this report with officials at Budget Matters on Monday 4 May

*Discuss/not discussed*

- j **indicate** if Ministers want to include any of the projects discussed in this paper or a tagged contingency for infrastructure into the Cabinet paper being prepared for 11 May, and

- k **note** officials will receive the full and final IRG list in late May and will provide Ministers with further advice on how to consider this list in the broader context of the recovery and decision making processes for the CRRF.

David Taylor  
**Manager, National Infrastructure Unit**

Hon Grant Robertson  
**Minister of Finance**

# Treasury Report: 'Shovel-ready' Infrastructure Projects - possible early announcements

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## Purpose of Report

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1. In response to a 'top 10' list of projects provided by the Infrastructure Reference Group, this report provides you with advice on potential 'shovel-ready' infrastructure projects for consideration as part of the 11 May Cabinet decisions on the COVID-19 Response and Recovery Fund (CRRF).
2. Attached to this report are three annexes:
  - Annex 1 provides you with broader advice on the role of infrastructure investment in the COVID-19 economic response and recovery.
  - Annex 2 sets out the proposed principles that officials have used for assessing projects.
  - Annex 3 provides you with the more detailed list of projects as submitted by the IRG with comments by the Treasury.
3. This report should be read alongside the *Strategy and options for allocating the COVID-19 Response and Recovery Fund* and *Assessment of bids for COVID-19 Response and Recovery Fund* reports, which provide the broader context for this advice and the full assessment of CRRF bids.

## Background

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4. On 1 April 2020, Ministers announced the establishment of the Infrastructure Reference Group (IRG) headed by Crown Infrastructure Partners (CIP) Chairman Mark Binns. The IRG is tasked with delivering a list of recommended infrastructure projects from the private and public sector that are 'shovel-ready' (or likely to be within six to 12 months).
5. The final IRG list is due with Ministers later in May. A recent Treasury report outlined the approach officials will be taking to advise Ministers on this work (T2020/1241 refers).
6. In advance of the final IRG list, Ministers also requested that the IRG deliver a 'top 10' list of projects to be considered in the lead up to the 11 May Cabinet decisions on allocating funding from the CRRF, for possible announcement shortly afterwards.
7. Mr Binns sent the final IRG 'top 10' list to Ministers and officials at 3pm on Thursday 30 April that included 24 projects. The methodology the IRG and CIP have used to select this list (from the 2000+ submission they have received) focused on regional spread and a mix of projects that meet the Government's policy objectives.

## Assessment of 'shovel-ready' projects

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### We have had limited time to assess the list...

8. Officials have had very limited time to assess these projects. We have attempted to balance the assessment between the proposed principles set out in Annex 2 and the indication from Ministers that they would like to consider early announcements. We note that when the IRG delivers their full and final list in late May, we will have more time to provide thorough analysis and advice.
9. The quality of information on the cost and timing of these projects has not been verified and should be treated as a preliminary estimate. There is likely to be considerable risk of delays or cost escalation.

### ... which comprises 24 projects seeking around \$1.5 billion of total government funding

10. The 'top 10' list comprises 24 projects across:
  - **6 sectors** – health, education, transport, housing and urban development, community facilities and three waters
  - **8 regions** – Auckland, Bay of Plenty, Otago, Tasman, Nelson, Canterbury, Wellington, Northland
  - **3 categories of government support** – direct Crown funding, loans (including concessionary loans), and fast-track consenting processes, and
  - **4 categories of entity requesting support** – central government departments/agencies, local government, and private sector firms and trusts.
11. The package is requesting total government financial assistance of around \$1.5 billion, comprising \$1 billion in direct Crown funding and \$500 million in loans (commercial and concessionary).
12. The table below summarises the 24 IRG shovel-ready list of projects including the Treasury's views. We consider that 6 projects could be considered for early announcement. Annex 3 provides you with the more detailed list of projects as submitted by the IRG with comments by the Treasury.







### **It is unclear what assumptions have been made about fast-tracking consenting...**

13. The COVID-19 Recovery (Fast-track Consenting) Bill will enable the acceleration of different sized and located infrastructure and other development projects.
14. Two fast-tracking processes are included in this Bill:
  - **Budget-night legislation** – specific large-scale government-led central projects to receive fast-track consenting that will be included in budget-night legislation (some will be subject to specified criteria, such as capital value thresholds or land tenure requirement).
  - **Subsequent process** – a longer-term process where projects must qualify according to criteria set out in the legislation for fast-track consenting.
15. It is unclear what assumptions IRG have made across the projects on which of these fast-track options are required to achieve the stated project start dates.
16. We will need to clarify if any projects need to be included in budget-night legislation to receive fast-tracking consenting if Ministers want to progress projects in the stated time frames.

[37]

### **...there may be better options for investment in transport projects...**

21. In reviewing the list prepared by IRG, the Ministry of Transport (MoT) noted that accelerated maintenance, minor mode shift improvements, and resilience projects would generally be lower risk and provide better immediate employment outcomes compared to renewals or extensions of the road and rail networks.

22. MoT also noted that the NZTA's longer list (which we have not reviewed) contained a number of higher priority projects which could be packaged up for accelerated delivery at a similar cost to the Crown.
23. We also note that maintaining base investment in the transport system through the National Land Transport Fund (NLTF) is likely to be more important in supporting the recovery from COVID-19 compared to new stimulus projects. The NLTF is likely to come under pressure to deliver on the Government's ambitions for transport investment as revenue declines both due to lockdown and the general economic downturn. We are currently discussing funding options with the Ministry and the NZTA.

### **...and the Capital Investment Panel has suggestions for how to deliver any investments effectively**

24. In order to help assess the IRG list, the Treasury convened a Capital Investment Panel (the Panel) involving representatives from entities with investment roles to examine the attractiveness and achievability of the projects. We note that the Panel would generally review business cases, but the process has not provided enough time or information for this kind of assessment.
25. Along with the individual assessments the Panel made, it considered that the greatest risk to you (as the investor) is that these proposals are unachievable because the ideas have not been fully explored and it remains unknown what it will take to deliver them successfully. In particular, the Panel considered that the key risks are:
  - costs are underestimated (for example due to reduced competition, scarce skills and productivity loss from social distancing)
  - resource requirements are underestimated (and/or assuming the market can and will provide), and
  - risk allocation is not clear (a healthy market will see players rewarded for taking on more risk – it could be some time before we see this).
26. The Panel considers that in order to deliver investments fast and well, Ministers should:
  - check the assurance and governance mechanisms
  - get implementation business cases reviewed by the Treasury and other experts to check that the delivery entity knows what it's going to take to succeed
  - ask for regular updates, especially around key risks and mitigations, and
  - use the Treasury and other investment entities to activate government networks and tap into expertise quickly as needed.

### **Other processes that could identify infrastructure projects**

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27. In addition to the IRG work, Ministers have other options to consider accelerating or investing in new infrastructure projects, including:
  - the draft capital expenditure packages from the CRRF bid process presented in the accompanying Treasury Report *Assessment of bids for COVID-19 Response and Recovery Fund*
  - directly commissioning advice from existing procurement agencies and groups on possible infrastructure projects, and

- establish a Wave 3 CRRF funding process where agencies could submit bids for infrastructure projects and Ministers would have the opportunity to select projects based on better information.

## Allocating funding for IRG projects

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28. The Minister for Infrastructure has submitted a placeholder bid through the CRRF process seeking \$5 billion in funding for IRG projects, both in relation to this initial 'top 10' list and the final list to be delivered later in May.
29. We do not recommend supporting this bid at this stage. Significant new infrastructure investment could best be considered later in Wave 2 and beyond (for example as part of Wave 3 or in Budget 2021) as it will allow more time to consider emerging information on long-term recovery scenarios and further options for enabling supply-side capacity.
30. In addition, Ministers will receive the final recommended IRG list later in May. Following this, we will provide you with advice on how to consider this list in the broader context of the recovery and the subsequent decision making processes for the CRRF.
31. If Ministers would like to allocate further funding for infrastructure in this CRRF round, we would recommend establishing a tagged contingency fund that can be drawn down once further work is done to identify appropriate projects. We can provide further advice on this option next week.
32. From an infrastructure industry perspective, establishing a tagged contingency for new infrastructure investment through the 11 May CRRF package would provide certainty to the market if publicly announced.

## Next Steps

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33. We will be available to discuss this report with you at Budget Matters on Monday 4 May, alongside the other two related papers which provide the broader context for this advice and the full assessment of CRRF bids:
  - *Strategy and options for allocating the COVID-19 Response and Recovery Fund, and*
  - *Assessment of bids for COVID-19 Response and Recovery Fund reports, which provide the broader context for this advice and the full assessment of CRRF bids.*
34. If you wish to consider some of the projects discussed above for early announcement or establish a tagged contingency for infrastructure projects, we recommend that this be incorporated into the CRRF Cabinet paper being prepared for 11 May.
35. As noted above, Ministers will receive the final recommended IRG list later in May.

## Annex 1 – the role of infrastructure investment in the recovery

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1. This description of the role of infrastructure builds on earlier advice this week (T2020/1241 refers).

### **Long-term role of infrastructure**

*Significant investment in new infrastructure will primarily be part of the longer-term recovery*

2. Significant investment in new infrastructure projects will help support the longer-term economic recovery as supply-side capacity constraints diminish over time. This will occur as the market naturally recovers and the benefits of supply-side government support play out. These supply-side constraints include:
  - operational disruption to firms, sub-contractors and supply chains (including international entities), especially during Alert Levels 2-4
  - labour and capital availability issues including the friction of any reallocation of labour and the international labour restrictions arising from immigration constraints, and
  - restricted market access to funding and financing and uncertainty around pipelines and long-term planning.
3. Given that these constraints will take time to ease during the recovery, there is a limited role for significant new infrastructure investment to stimulate demand in the short term (and if demand exceeds supply, this will simply drive up prices).
4. For these reasons, decisions around significant in new infrastructure investment will best be considered later in Wave 2 and beyond (for example as part of Wave 3 or in Budget 2021). This will allow time to consider emerging information on long-term recovery scenarios, different sectors in the economy and further options for enabling supply-side capacity in the long-term.

### **Short-term role of infrastructure**

*The short-term focus should include ensuring current infrastructure projects resume at pace*

5. An important focus in the short-term will be to ensure that current infrastructure and construction projects, in both the private and public sector, can resume at pace. Resuming these projects will go a long way towards utilising the current supply-side capacity in the market.
6. The existing broad-based government support measures, such as the Wage Subsidy Scheme and the Business Finance Guarantee, are helping to ensure that firms can remain solvent, manage cash flow and be ready to resume construction. Large projects represent a complex web of suppliers, financiers and subcontractors across the industry, and existing projects will be well targeted by these broad-based measures, especially during the cessation of business in Alert Levels 3 and 4.
7. The accompanying Treasury report delivered today '*Strategy and options for allocating the COVID-19 Response and Recovery Fund*' discussed the option of refining these broad-based support measures to firms and employees. These measures could continue to provide financial support to supply-side capacity in the short-term.

*Some government support for 'shovel-ready' projects in the short-term is likely beneficial*

8. Given the current disruption and uncertainty in the market, there are likely benefits for government to support and accelerate some infrastructure projects in the short-term. This is on the basis that there is some short-term capacity in the market due to factors such as:
  - lag times in procurement and planning process that may have been exasperated during the COVID-19 disruption,
  - short-term excess labour resource that could be redeployed to projects,
  - ensuring continuity of the project pipeline in the short- and medium-term, to support market confidence going forward.

*If new projects are supported on 11 May, the most appropriate projects should be chosen*

9. If Ministers want to consider government support for specific projects on 11 May, it is important that the most appropriate projects are chosen. In considering these projects, officials recently recommended the list of principles in Annex 1 (T2020/1241 refers).
10. The most appropriate projects that meet these criteria, especially given the limited time to conduct thorough analysis, are likely to be:
  - accelerating existing central government projects (or maintenance) that are already in the planning pipeline, and
  - perhaps extending existing broad-base support measures, such as the Business Finance Guarantee in a way that accelerates specific private sector projects.

## Annex 2 – high level assessment criteria

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In assessing these projects, officials have used the following principles:

- Avoiding projects where there are supply-side capacity constraints in the sector, over the duration of construction that the market is unlikely to respond to.
- Good planning already in place (e.g. a developed business case) and evidence of good net public benefit and value-for-money (including whole of life costs, where applicable).
- Established procurement arrangements and funding channels (to avoid bespoke arrangements established in haste at the cost of quality and assurance).
- Avoiding setting a precedent for government support that is inconsistent with the overall government approach or the role of government.
- Avoiding unnecessarily crowding out of private sector investment or activity (instead providing only necessary support to enable and facilitate the private sector).
- For any regulatory support being requested, ensure there is balanced consideration of the regulatory outcomes as well as project time savings / certainty.

